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NA-CHURS
INTERNATIONAL

file

1976 ANNUAL REPORT



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Directors & Officers



WALTER J. EVANS
Business Consultant
Chairman of the Board
and Director
Na-Churs International
Limited



BYRON W. EDNEY
President, Chief Executive
Officer and Director
Na-Churs International
Limited



DONALD E. FOYSTON
Vice President
and Director
A. E. Ames & Co. Ltd.
Investment Dealers &
Stock Brokers
Director
Na-Churs International
Limited



JOHN F. PETCH
Lawyer, Osler,
Hoskin & Harcourt
Secretary and Director
Na-Churs International
Limited



JOHN A. ROGERS
Managing Consultant,
Profit Counselors, Inc.
Director
Na-Churs International
Limited



JOHN D. KELLY
Treasurer
Na-Churs International
Limited



DONALD F. WEST
Controller and
Assistant Secretary
Na-Churs International
Limited



1976

NA-CHURS INTERNATIONAL ANNUAL REPORT

ADMINISTRATIVE OFFICE
421 Leader Street
Marion, Ohio

AUDITORS
Ernst & Ernst

STOCK EXCHANGE
Toronto Stock Exchange

TRANSFER AGENT AND REGISTRAR
The Canada Trust Company,
Toronto, Winnipeg, Vancouver



Dear Shareholder:

1976 was a year of achievement.

NET SALES

Notwithstanding a difficult industry-wide market environment, Na-Churs had net sales of \$55.2 million for the fiscal year ended September 30, 1976 compared with the previous year's level of \$62.7 million.

HIGHER EARNINGS

In spite of a decrease in sales, we were able to attain higher earnings before depreciation, interest expenses on total borrowings and income taxes. These earnings rose to \$12.5 million, a figure which is well above the 1975 level of \$11.5 million. The only factors which prevented us from showing a corresponding increase in earnings were (1) higher depreciation writeoffs due to large capital expenditures incurred in the previous year, (2) higher interest expenses occasioned by a higher beginning inventory and previous heavy capital expenditures, and (3) a higher tax rate resulting from reduced investment tax credits.

NET INCOME PER SHARE

Net income for the fiscal year was \$4.6 million, equal to \$1.46 per common share, compared with \$5.1 million or \$1.62 per common share for the preceding year.

OPERATIONAL CONTROLS

A year ago, a new Na-Churs management team promised a general tightening of operational controls to strengthen the company's position. Our ability to deliver on these promises is reflected in the higher earnings before depreciation, interest expenses and income tax, in spite of lower net sales. These

accomplishments are due to improved controls, elimination of unprofitable divisions and management reorganization during fiscal 1976.

BANK BORROWINGS

The reduction in bank borrowings from \$14 million as of September 30, 1975 to \$2 million as of September 30, 1976 dramatically illustrates the benefits of these improved controls and reorganization. Further, Na-Churs has recently received a proposal from its bankers to enter into a new line of credit arrangement on more attractive terms.

BOOK VALUE

In addition to a strengthened earnings posture, you will note that the Book Value of your company increased from \$16.1 million at the end of fiscal 1975 to \$19.8 million at the end of fiscal 1976, increasing the Book Value per common share from \$5.09 a year ago to \$6.25 this year.

BALANCE SHEET

Working capital increased from \$4.9 million a year ago to \$9.9 million this year. The ratio of current assets to current liabilities improved from 1.2:1 for fiscal 1975 to 1.8:1 for fiscal 1976.

ACHIEVEMENT HIGHLIGHTS

We are particularly pleased with 1976 achievements directly traceable to the combined efforts of a companywide team, working together on many fronts. We went into the field early in the

year to interview our top people and to draw heavily on their knowledge, their experience and their specific needs to strengthen our market position. Here is a partial list of some of the improvements that resulted:

- Inventory control was improved significantly.
- Crop results became more uniform and more consistent.
- A standard cost system was installed and is working effectively.
- Capital expenditures were reduced from approximately \$6,500,000 to approximately \$1,000,000.
- Our soil test laboratories were redesigned and streamlined to provide even better and faster service.
- Our team of agronomists was increased.
- Improved production controls and scheduling resulted in substantial cost reductions.
- Research projects are under way at universities in North Dakota, Minnesota and Arkansas.

SPECIALIZED SALES FORCE

In our private enterprise system and competitive economy, it is imperative that all companies recognize, cultivate and utilize their maximum strengths. Our greatest strength is our outstanding, aggressive, specialized sales force. Considerable time was spent this year developing ways to assist this sales team and to improve its effectiveness.

TERRITORIAL MANAGERS

We appointed six Territorial Sales Managers based on the potential business in each state, the amount of Na-Churs business in each, and the geographical relationship of each territory in order to get maximum coverage at minimum cost. The managers that we chose are outstanding individuals with remarkable track records from both a sales and management standpoint. A photograph of the Territorial Managers and brief information about each is shown on Page 9.

BOARD OF DIRECTORS EXPANSION

In March of this year Joseph W. Guess, a seven-year veteran with Na-Churs and a Regional Manager in our sales force was appointed to the Board of Directors of Na-Churs Plant Food Company.

EARLY PAYMENT BY CUSTOMERS

We introduced a new program in order to encourage early payments from customers. For the past three years, we had given farmers extra gallons as a reward for early payment. This year, we replaced the premium gallon program with a cash discount.

INCENTIVE PROGRAM

We are proud of our Na-Churs Bandwagon 1977 Sales Incentive Program as this has been very well received by our sales people and will surely inspire them on to even greater effort. Incentive programs are not new to Na-Churs, but this program has significant new features which will enable virtually all members of our sales force to share in a point system that will entitle them to a broad range of awards.

CORPORATE IMPROVEMENTS

We made remarkable strides forward in 1976 by closing out unprofitable divisions. We closed out the Feed Supplement Division, the Retail Division and our Greenhouse operations. We will continue to make feed product for existing customers. In several instances the feed program opened doors that led to sales of fertilizer.

CUSTOMER LOYALTY

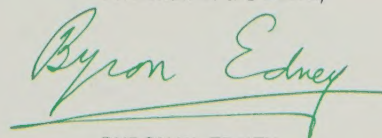
Our strength in the marketplace received a genuine test this year because of a general tendency among fertilizer companies to reduce prices. We held the line on our prices, the results of which are favorably reflected in our Financial Statements.

LOOKING AHEAD

We face the future with confidence and determination. We are the largest manufacturer of liquid fertilizer on the North American Continent. We have a sales force that we feel just cannot be duplicated. We have forty to fifty thousand farm storage tanks and in excess of three hundred bulk storage depots strategically located, supported by 4 manufacturing plants. We have good relationships with our suppliers. We have an enviable track record, plus many thousands of satisfied customers. We supply a complete and specialized fertilizer service to the farm trade, are active in research and development and have the only product that we know that can withstand numerous freeze thaw cycles without precipitating chemical components. We have a strong financial statement, a group of employees of whom we may be justly proud, good laboratory facilities, modern plant equipment and an up-to-date transportation fleet of trucks and rail cars.

In addition to thanking you for your past support, we assure you that we will continue to do our best to merit your confidence and to operate our company on a sound and profitable basis.

On behalf of the Board,

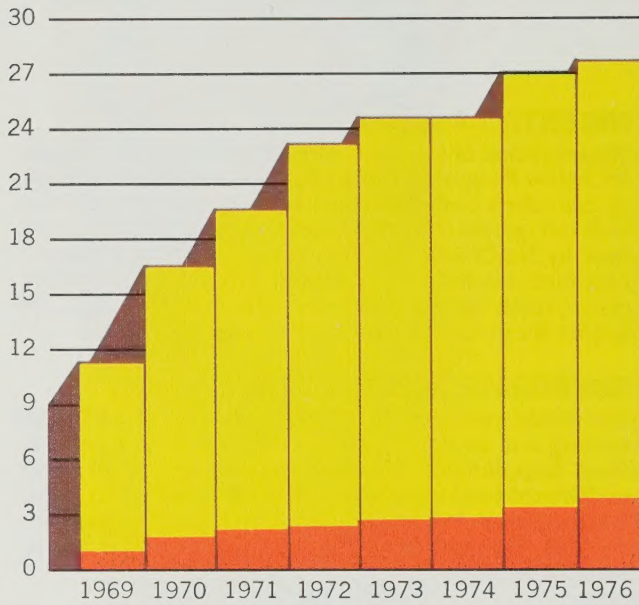


BYRON W. EDNEY
President

EMPLOYEES

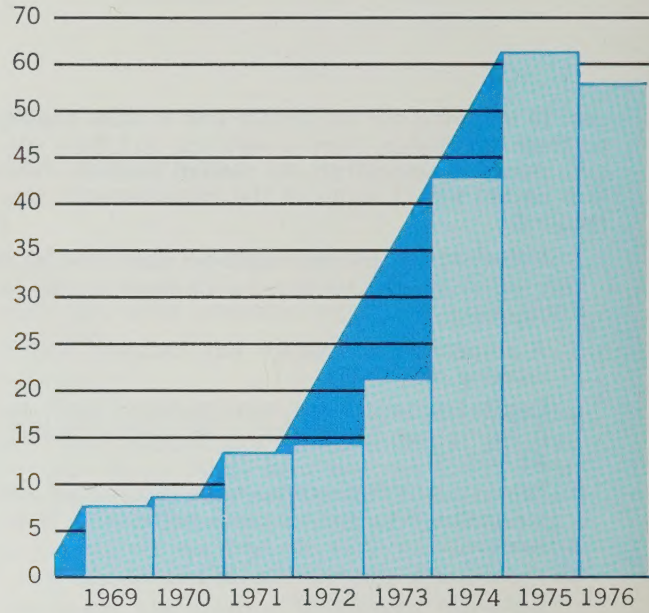
HUNDREDS

FIELD REPS. ADM. & STAFF



SALES

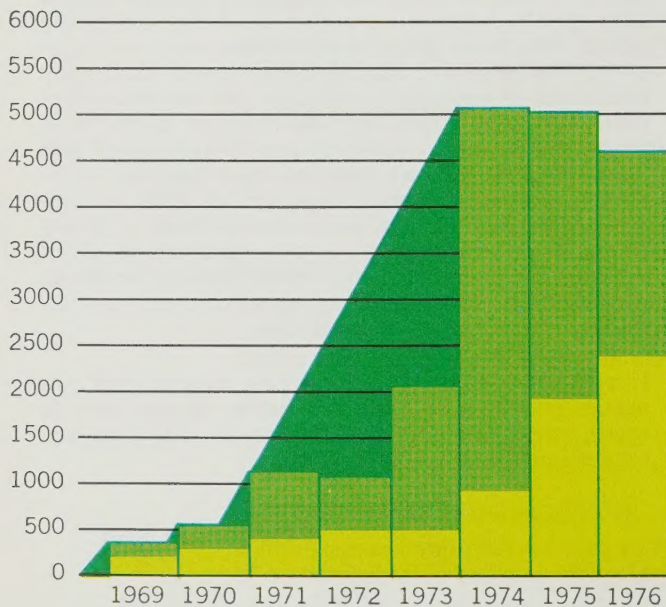
MILLIONS OF DOLLARS



FUNDS FLOW

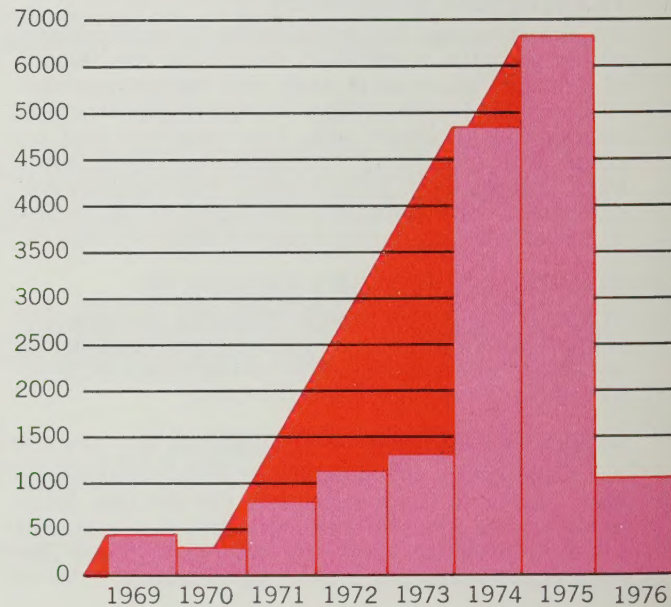
THOUSANDS OF DOLLARS

NET EARNINGS DEPRECIATION



NET CAPITAL EXPENDITURES

THOUSANDS OF DOLLARS





NA-CHURS...the Professionals in Liquid Fertilizer

Liquid Fertilizer was a tiny orphan when NA-CHURS adopted this infant industry 30 years ago devoting all of its energies and resources to its development. Today, thousands of growers in 42 States and Provinces cheerfully give credit to NA-CHURS for adding millions of dollars to the annual profitability of their farms. For a glimpse of the future, consider the potentials NA-CHURS Professional Programs hold for a hungry world as population growth continues to overtake normal food production capacity.



NA-CHURS "BOARD POWER"

During the years of NA-CHURS progress in the laboratory and in the marketplace, dramatic changes were taking place in the Board Room and in the executive management team. An impressive array of management, financial and legal skills has developed to direct NA-CHURS confidently into its new areas of opportunity.

For example, take a moment to turn to Page 3. Consider the stature of the members of your Board of Directors, and the collective talents and experience of the entire management team. Let's learn a bit more about them and their qualifications to deal with today's corporate challenges and opportunities.

WALTER J. (WALLY) EVANS,

our Board Chairman, is a "charter member" of the Board of Directors of Na-Churs International Limited, formed in 1963. He is a Director of Lawrason Holdings Limited, Kalama Chemicals Incorporated, Drug Research Incorporated and several other Canadian and American Corporations. He has an Accounting Degree (R.I.A.), and is a member of the Board of Governors and Chairman of the Finance Committee of the University of Western Ontario. He is a Past President of the Advisory Board of St. Joseph's Hospital in London, is presently a Director of both the Hospital Board and Advisory Board, a Trustee of the Y.M.-Y.W.C.A., Director of the Canadian Save the Children Fund, Vice Chairman of the John Cody Memorial Cultural Foundation, Director of the Canadian National Institute for the Blind, Past President of the London Chamber of Commerce, a Knight of Malta and Chairman of the Board of St. Mary's Hospital in London.

BYRON W. EDNEY,

Na-Churs President, and Chief Executive Officer literally worked his way "from the ground up" to our corporate presidency. He was born and raised on a farm in York County, Ontario. In 1958 he launched his career with NA-CHURS, starting as a Crop Service Representative. Methodically and steadily advancing with the company, he is now its President. He maintains his early attachment to the soil through ownership of a farm in Ontario, but finds time

to contribute to community life in Marion, Ohio where he and wife Marie and their two daughters live.

DONALD E. FOYSTON

has a career which is custom made for important contributions to the NA-CHURS' Board. He holds a Bachelor of Science Degree in Agriculture from the University of Guelph and a Master's Degree in Business Administration from the University of Western Ontario. Add a couple of years with Massey Ferguson Ltd. as a District Sales Manager and you have the background for his principal career which he launched in 1954 by joining A. E. Ames & Co. Ltd., investment dealers and stock brokers. Don started as a sales trainee and progressed systematically through the positions of Salesman, Branch Manager, Partner in Charge of Stock Trading, Director of Administration, Member and Seatholder of The Toronto Stock Exchange and finally to his present title of Vice President-Administration and National Sales Manager. He is a member of the Board of Directors of Federal Diversiplex Ltd. and, is involved in a wide range of community interests. He and his wife Dianne and their four children live in Oakville, Ontario.

JOHN F. PETCH

obtained his B.A. Degree, majoring in Economics and Politics at the University of Western Ontario in 1960. Three years later he received his Law Degree from the University of Toronto, receiving various awards in Commercial Law and Company Law. Jack is a partner in a Toronto Law firm practicing business law. He has had wide experience as a lecturer, has written for the University of Toronto Law Review and serves on the Editorial Board of Butterworth's Encyclopedia of Legal Forms. In addition to his legal affiliations, he has been involved with various community activities such as the University of Western Ontario, King's College, Madame Vanier Children's Services Board, London and District Association for the Mentally Retarded and the United Appeal.

JOHN A. ROGERS

brings to the Board of Directors a background of experience as an international management consultant.

He studied at Washington & Jefferson College, Harvard University and Loyola University and holds Bachelor of Arts and Bachelor of Science Degrees and a Doctor of Jurisprudence Degree. He has worked as a consultant to various business enterprises in the United States and Europe. He presently is Managing Consultant for Profit Counselors, Inc. Jack served as an officer in the U.S. Navy and finished his tour of duty with five decorations. He is active in St. John Catholic Church. He and Mrs. Rogers and their daughter reside in Valdosta, Georgia.

JOHN D. KELLY, JR.

brings a broad financial and management background to the NA-CHURS office of Treasurer and Chief Financial Officer. After acquiring A.B. and M.B.A. Degrees from Rutgers University, he spent six years with Price Waterhouse & Company in New York City as a Senior Accountant. In 1970 he joined Borden, Inc. as Accounting and Budget Manager, first in New York, then moving with the corporate offices to Columbus, Ohio. He later was a Financial Consultant with Capital Acquisition & Investment Corp. of Columbus and President of Chapel Management Co. before joining NA-CHURS. He is a Certified Public Accountant, a member of CPA societies in several states and a member of the American Institute of Certified Public Accountants. He has served as Treasurer of several community and social organizations and resides on a farm near Marysville, Ohio.

DONALD F. WEST

brings to the Controllershship of NA-CHURS a broad background of accounting and tax expertise. After obtaining his Bachelor of Science Degree at Ohio State University, he spent seven years in the Audit and Tax Departments of the Columbus office of Ernst & Ernst, Certified Public Accountants. He holds memberships in the Ohio Society of Certified Public Accountants, National Association of Accountants and the Worthington Estate Planning Council. He serves on the Occupational Works Experience Advisory Committee of Tri-Rivers Joint Vocational School at Marion. He is knowledgeable about agriculture through his boyhood farm background near Galion, Ohio. He and his wife Beverly are parents of a son and daughter.

NA-CHURS:

Pioneer in the "Quiet Revolution"

Some day, historians will write about the "quiet revolution" in plant feeding brought about by liquid fertilizer. Like many other quiet revolutionary developments, liquid fertilizer at first attracted minimal attention when NA-CHURS first offered it to commercial agriculture some 30 years ago. Because people are slow to change, the "quiet revolution" has yet to reach the peak of its power. Its evolution has been interesting and, at times, dramatic.

You can gain further insight into NA-CHURS dedication to research and professionalism in a recent



statement of Owen McIntyre, our Vice President in charge of Production and Quality Control. In an article for NA-CHURS WAY he said, in part:

"When I get into my automobile and head for home at the end of a day, I like to feel that the job I am doing can make life just a little easier and a little better for thousands of people using the product I help manufacture. I am proud to be in a position where my efforts and energies can make such a direct contribution to the well-being of so many others. I'm proud to be identified with a company that is anxious to have me make our product just as good as money can make it. I am proud to be with a company that has grown by earning and deserving the confidence and trust of growers throughout a big portion of the North American continent. I am glad that my company is building its business for the long haul, not just trying to make a fast buck in a world of business that seems at times to reward the fickle . . . I have seen NA-CHURS help so many different people in so many different ways that I have almost an evangelistic desire to spread the good word."

TERRITORIAL MANAGERS HEAD POWERFUL FIELD SALES FORCE

Outstanding sales talent and marketing power characterize the six Territorial Managers who direct the NA-CHURS field sales organization. These are the men who establish and maintain high standards of professionalism in the marketing of liquid fertilizer. They are experts at making the full resources of NA-CHURS technical teams and facilities directly available to meet the needs of individual growers.



Standing (left to right) Bruce Moyer, Arlyn Friesen, Bruce Doezeema
Seated (left to right) Bob Kremers, John Bartlett, Bob Knight

BRUCE MOYER

is a 14-year NA-CHURS veteran, "hired off the farm" to begin a career which started as a salesman in 1963. He was advanced to District Manager in 1964, to Regional Manager a year later, and in 1970 became Tri-State Manager. He was made Assistant Vice President of Field Operations in 1972, and two years later was promoted to Vice President of Na-Churs Plant Food Co. His current Territorial Manager responsibilities include the States of Indiana, Ohio, Pennsylvania, New York, Massachusetts, Maryland and New Jersey. He is Vice President and a Director of Delaware Aviation. He and his wife Jolene, parents of four, reside at Delaware, Ohio.

ARLYN E. FRIESEN

brings such diverse talents as rodeo riding and Marine Corps toughness to bear on his duties as Territorial Manager in nine southwestern states. He was treasurer of the Rodeo Club while studying at the University of Nebraska where he was graduated in 1968 with a Bachelor of Science Degree in Agriculture. He joined NA-CHURS seven years ago in Nebraska, advancing in 1972 to Regional Manager for the Texas Panhandle, then moved up to Field Operations in 1975. A year later he was named Assistant Vice President, Na-Churs Plant Food Co.. The states in his territory are Nebraska, Texas, Oklahoma, Wyoming, Arizona, Colorado, Missouri, Kansas and New Mexico. He and wife Rosie and their two daughters live at Morrison, Colorado.

BRUCE DOEZEMA,

born and raised in Michigan, was engaged in farming prior to starting his career with NA-CHURS in 1966. He became a District Manager in his first year and a year later moved to Indiana to become Area Manager. He was made Regional Manager in 1968. In 1974 he moved to Ohio to become Assistant Vice President of Na-Churs Plant Food Co. As Territorial Manager his responsibilities include the States of Arkansas, Louisiana, Mississippi,

Alabama, Georgia, Florida, North and South Carolina, West Virginia and Virginia. He is an honorary member of the Indiana Young Farmer Organization. He and his wife Donna, parents of four children and grandparents of one child, reside at Marion, Ohio.

ROBERT J. KREMERS

has midwestern agricultural roots that reach back to Golden Valley County in North Dakota. He was born and raised on a farm, and after serving four years in the Navy he engaged in farming for seven years before enrolling in North Dakota State University. He was graduated in 1969 with a Bachelor of Science Degree in Agricultural Economics. Four years of feed sales work completed his preparations to join NA-CHURS in 1973. Two years later he was promoted to Regional Manager in Michigan. Last fall he was appointed Territorial Manager for the states of Michigan, North and South Dakota, Wisconsin, Minnesota, Idaho, Wyoming and Montana. He and his wife are parents of three daughters. The family home is in Fargo, North Dakota.

JOHN M. BARTLETT,

Assistant Vice President of Na-Churs Plant Food Co. is overseeing the operation of NA-CHURS facilities in Canada. He studied dairy husbandry at Cornell and spent several years in dairy farming until pausing in 1943 for three years of service with the U.S. Marine Corps, attaining the rank of sergeant. Fifteen years of farming preceded his decision to join NA-CHURS in 1963 as a Sales Representative. A year later he advanced to District Manager and the following year was made Regional Manager. He has been active in veterans organizations and in the Masonic order. He and his wife Fran, parents of four children, reside at Mt. Gilead, Ohio.

ROBERT W. KNIGHT

demonstrated his leadership capabilities early in life, winning a State Farmer Degree while in Grayville (Ill.) High School. After taking agronomy-related courses at the University of Illinois, he spent four years each with W. R. Grace Company and Allied Chemical Company in marketing. Consequently, he advanced steadily after joining NA-CHURS late in 1970 in Southern Illinois. He advanced to Regional Manager in mid-1972, joined Field Operations in 1973, and was promoted to Vice President of Na-Churs Plant Food Co. in 1975. Last fall he was made Territorial Manager for Iowa and Illinois. He and his wife Sharlene and their four children live in Mt. Gilead, Ohio.

NA-CHURS...the Growing Professionals



Income Statistics

	1976	1975	1974
Net sales	\$55,246,837	\$62,745,173	\$42,843,000
Earnings before depreciation, interest on long-term debt and income taxes	11,454,421	10,631,856	11,022,638
Depreciation	2,414,752	1,848,946	905,411
Interest on long-term debt	12,129	16,441	83,041
	<u>2,426,881</u>	<u>1,865,387</u>	<u>988,452</u>
Earnings before income taxes	9,027,540	8,766,469	10,034,175
Income taxes	4,415,000	3,689,000	4,946,000
Net earnings	4,612,540	5,077,469	5,088,175
Net earnings per common share — Note B	1.46	1.62	1.62
Effective tax rate	48.9%	42.1%	49.3%
Net earnings as % of sales	8.3%	8.1%	11.9%

Balance Sheet Statistics

Current assets	\$21,859,427	\$29,910,995	\$16,977,211
Current liabilities	11,924,585	25,007,680	11,470,561
Working capital	9,934,842	4,903,315	5,506,649
Ratio of current assets to current liabilities	1.8:1	1.2:1	1.5:1
Net expenditures on plant and equipment	\$1,007,144	\$ 6,565,788	\$ 4,372,121
Long-term debt	110,760	200,740	290,721
Shareholders' equity	19,818,389	16,139,090	11,935,591
Common shareholders' equity per common share — Note B	6.25	5.09	3.71
Common shares outstanding at year-end — Note B	3,146,248	3,137,448	3,137,448
Net earnings as a % of common shareholders' equity (at beginning of year) after provisions for preferred dividends	28.8%	43%	71.3%

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NOT

1973	1972	1971	1970	1969	1968	1967
20,982,542	\$14,052,299	\$13,417,507	\$8,283,426	\$7,717,986	\$7,312,039	\$6,617,255
4,645,737	2,605,268	2,662,308	1,393,563	917,215	727,629	688,726
468,492	419,362	302,756	236,539	193,185	109,758	42,298
199,714	123,084	26,015	46,608	6,296	3,940	4,776
668,206	542,446	328,771	283,147	199,481	113,698	47,074
3,977,531	2,062,822	2,333,537	1,110,416	717,734	613,931	641,652
1,919,626	951,000	1,135,000	555,000	373,000	290,270	300,962
2,057,905	1,111,822	1,198,537	555,416	344,734	323,661	340,690
.67	.36	.39	.18	.11	.11	.14
47.3%	46.1%	48.6%	50.0%	52.0%	47.3%	46.9%
9.8%	7.9%	8.9%	6.7%	4.5%	4.4%	5.1%
9,530,408	\$ 6,802,659	\$ 6,085,888	\$4,021,130	\$4,442,496	\$3,274,373	\$1,991,968
4,601,341	2,868,341	3,610,094	1,956,004	2,726,604	1,995,836	1,489,565
4,929,067	3,934,318	2,475,794	2,065,126	1,715,892	1,278,537	502,403
2.1:1	2.4:1	1.7:1	2.1:1	1.6:1	1.6:1	1.3:1
1,387,596	\$ 1,170,333	\$ 787,917	\$ 265,247	\$ 428,176	\$ 458,636	\$ 179,551
1,303,800	1,539,627	288,339	422,474	556,461	65,634	74,698
7,286,213	5,228,906	4,153,864	2,950,907	2,405,913	2,077,313	876,735
2.32	1.65	1.35	.90	.72	.61	.27
3,074,448	3,065,448	3,035,448	3,012,288	3,012,288	3,012,288	2,401,308
40.7%	28.5%	43.9%	25.2%	18.3%	49.0%	90.8%

1969 and prior years have been restated in U.S. currency to compare to 1970 reporting.

Prior years are restated to reflect stock split in 1974 for two-for-one and in 1972 for three-for-one.

NA-CHURS INTERNATIONAL

CONSOLIDATED

BALANCE SHEET

LIMITED AND SUBSIDIARIES

(EXPRESSED IN UNITED STATES CURRENCY)

	SEPTEMBER 30	
	1976	1975
CURRENT ASSETS		
Cash — Note B	\$ 858,967	\$ 4,289,045
Notes and accounts receivable, less allowances for doubtful accounts of \$1,110,000 in 1976 and \$958,000 in 1975 — Note B	13,384,430	10,224,136
Inventories — Note B:		
Finished products	4,353,297	7,817,532
Work in process, raw materials and supplies	2,910,232	5,897,888
	7,263,529	13,715,420
Recoverable taxes on income		1,106,215
Deferred taxes on income	261,750	269,750
Other current assets	90,751	306,429
TOTAL CURRENT ASSETS	21,859,427	29,910,995
PROPERTY, PLANT AND EQUIPMENT — Note B		
Land — mortgaged	645,276	700,086
Buildings and roadways	1,878,654	1,818,780
Plant equipment and storage tanks	12,432,825	11,537,280
Office furniture and equipment	222,067	199,319
Transportation equipment	1,382,910	1,332,824
Allowances for depreciation (deduction)	(6,622,805)	(4,241,754)
	9,938,927	11,346,535
	<u>\$31,798,354</u>	<u>\$41,257,530</u>

See accompanying notes to consolidated financial statements.



SEPTEMBER 30

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES

	<u>1976</u>	<u>1975</u>
Notes payable to banks — Note B	\$ 2,000,000	\$14,000,000
Trade accounts payable	2,484,175	4,229,784
Compensation and taxes thereon	4,495,237	4,192,661
Accrued interest, deposits and other	698,621	685,146
Taxes on income	1,298,963	733,734
Customer prepayments	892,209	1,076,375
Portion of long-term debt due within one year	55,380	89,980
TOTAL CURRENT LIABILITIES	11,924,585	25,007,680

MORTGAGE NOTE PAYABLE — less portion

classified as current liability		
8%, due in annual installments of \$55,380 through 1978	55,380	110,760

SHAREHOLDERS' EQUITY

Capital stock — Note C:		
Authorized:		
Class "A" preferred — 11,766 shares, 6% cumulative, redeemable, par value \$10 Canadian per share		
Class "B" preferred — 200,000 shares, 6% non-cumulative, redeemable, par value 45¢ Canadian per share		
Common — 6,000,000 shares without par value		
Shares issued and outstanding:		
Class "A" preferred — 11,757 18/100 (no change in 1975)	104,462	104,462
Class "B" preferred — 152,542 (no change in 1975)	61,979	61,979
Common: 1976 — 3,146,248; 1975 — 3,137,448	1,038,500	1,009,900
	<u>1,204,941</u>	<u>1,176,341</u>
Additional paid-in capital	29,769	29,769
Retained earnings — Notes B and G	18,583,679	14,932,980
	<u>19,818,389</u>	<u>16,139,090</u>

COMMITMENTS AND CONTINGENT LIABILITIES —

Notes D, E and F	<u>\$31,798,354</u>	<u>\$41,257,530</u>
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APPROVED ON BEHALF OF THE BOARD:

Walter J. Evans, Director

Byron W. Edney, Director



NA-CHURS INTERNATIONAL

LIMITED AND SUBSIDIARIES

EARNINGS-OPERATIONS

STATEMENTS OF CONSOLIDATED INCOME AND RETAINED EARNINGS

(Expressed in United States Currency)

	YEAR ENDED SEPTEMBER 30	
INCOME	1976	1975
Net sales	\$55,246,837	\$62,745,173
Deductions:		
Costs and expenses other than interest and taxes on income	45,286,936	53,306,106
Interest:		
Long-term debt	12,129	16,441
Other	1,071,928	857,553
	46,370,993	54,180,100
	8,875,844	8,565,073
Other income	151,696	201,396
INCOME BEFORE TAXES ON INCOME	9,027,540	8,766,469
Taxes on income:		
Federal (deferred: 1976 — \$8,000; 1975 — \$33,000)	3,971,000	3,293,000
State and city	444,000	396,000
	4,415,000	3,689,000
NET INCOME (per common share: 1976 — \$1.46; 1975 — \$1.62)	\$ 4,612,540	\$ 5,077,469
Remuneration paid or payable to senior officers and directors of the Corporation	\$ 304,934	\$ 533,223

RETAINED EARNINGS

Balance at beginning of year	\$14,932,980	\$10,729,489
Net income	4,612,540	5,077,469
	19,545,520	15,806,958
Deduct cash dividends — Notes B and G:		
On classes "A" and "B" preferred shares	11,267	11,178
On common shares (1976 — \$.30 per share; 1975 — \$.27 per share)	950,574	862,800
	961,841	873,978
Balance at end of year	\$18,583,679	\$14,932,980



See accompanying notes to consolidated financial statements.

STATEMENTS OF CONSOLIDATED CHANGES IN FINANCIAL POSITION
(Expressed in United States Currency)
NA-CHURS INTERNATIONAL LIMITED
AND SUBSIDIARIES

	YEAR ENDED SEPTEMBER 30	
	1976	1975
FUNDS PROVIDED		
Net income	\$ 4,612,540	\$ 5,077,469
Provision for depreciation of property, plant and equipment which did not affect working capital	2,414,752	1,848,946
FUNDS PROVIDED FROM OPERATIONS	7,027,292	6,926,415
Cash proceeds from issuance of 8,800 common shares	28,600	
TOTAL FUNDS PROVIDED	7,055,892	6,926,415
FUNDS USED		
Expenditures for property, plant and equipment	1,007,144	6,565,788
Current maturities and retirement of long-term debt	55,380	89,980
Cash dividends	961,841	873,978
TOTAL FUNDS USED	2,024,365	7,529,746
INCREASE (DECREASE) IN WORKING CAPITAL	\$ 5,031,527	\$ (603,331)
CHANGES IN COMPONENTS OF WORKING CAPITAL		
Increase (decrease) in current assets:		
Cash	\$ (3,430,078)	\$ 3,770,883
Notes and accounts receivable	3,160,294	1,197,600
Inventories	(6,451,891)	6,907,442
Recoverable taxes on income	(1,106,215)	1,106,215
Deferred taxes on income	(8,000)	19,050
Other current assets	(215,678)	(67,410)
DECREASE IN CURRENT ASSETS	(8,051,568)	12,933,780
Increase (decrease) in current liabilities:		
Notes payable to banks	(12,000,000)	12,000,000
Trade accounts payable	(1,745,609)	3,135,737
Compensation and taxes thereon	302,576	228,672
Accrued interest, deposits and other	13,475	308,093
Taxes on income	565,229	(2,776,766)
Customer prepayments	(184,166)	641,375
Portion of long-term debt due within one year	(34,600)	
DECREASE IN CURRENT LIABILITIES	(13,083,095)	13,537,111
INCREASE (DECREASE) IN WORKING CAPITAL	\$ 5,031,527	\$ (603,331)

See accompanying notes to consolidated financial statements.



notes to consolidated financial statements

NA-CHURS INTERNATIONAL LIMITED
AND SUBSIDIARIES
SEPTEMBER 30, 1976

NOTE A — ACCOUNTING POLICIES

Basis of Consolidation — The consolidated financial statements include the accounts of the Corporation and its subsidiaries (all of which are wholly-owned):

Na-Churs Plant Food Co.
Tri-State Trucking Inc.
Shenandoah Grain Corporation
Na-Churs Plant Food Company (Canada) Limited
The Berlou Company (Canada) Limited

Inter-Company accounts and transactions have been eliminated.

Translation of Foreign Currency — The financial statements are stated in United States dollars. Amounts in Canadian funds were translated on the following basis:

- Cash, accounts receivable, accounts payable, accrued compensation, taxes payable, other current assets and other current liabilities are carried at approximate year end exchange rates;
- Inventories, property, plant and equipment, and capital stock are carried at historical exchange rates; and,
- Income, costs and expenses are carried at average exchange rates for the year, except for depreciation, which is at historical rates.

Unrealized foreign exchange adjustments are treated as income or expense. Such adjustments were insignificant for the years ended September 30, 1976 and 1975.

Inventories — Inventories have been valued generally at the lower of cost or market. Cost is determined on a first-in, first-out basis. Market is considered as replacement cost which cannot exceed net realizable value nor be less than net realizable value minus a normal profit margin.

Property, Plant and Equipment — Property, plant and equipment is carried at cost and includes expenditures for new assets and those expenditures which substantially increase the useful lives of existing assets. Maintenance, repairs and minor renewals are expensed as incurred. When properties are disposed of, the cost and related allowances for depreciation are removed from the accounts and any gain or loss is credited or charged to income.

The Corporation provides for depreciation of property, plant and equipment principally by the straight-line method over the estimated useful lives of the assets. The declining balance depreciation method is used for farm storage tanks acquired after September 30, 1974 and costing \$3,957,000 and transportation and office equipment acquired in 1976 and costing \$88,000.

Lives used in the calculation of depreciation are as follows:

Buildings and roadways — 15 to 25 years
Plant equipment and storage tanks — 3 to 15 years
Office furniture and equipment — 5 to 10 years
Transportation equipment — 4 to 7 years

Income Taxes — The Corporation provides for income taxes based on income reported for financial statement purposes, adjusted for permanent tax differences. Deferred taxes result principally from bad debt and certain accrued expenses in excess of amounts currently deductible for federal income tax purposes.

Investment tax credits (\$100,000 in 1976 and \$544,000 in 1975) are recognized as a reduction of the provision for federal income taxes on a flow-through basis.

Stock Options — Proceeds from the sale of common stock issued under options are credited to common stock at the time the options are exercised. Options are issued at market value at the date they are granted. Therefore, the Corporation makes no charges against income with respect to options.

Research and Development Costs — Research and development costs are charged to operations as incurred.

Income Per Common Share — Income per common share is computed by dividing (1) net income, less dividend requirements on the Classes "A" and "B" preferred stock by (2) the average number of common shares outstanding during the year. Outstanding stock options did not have a dilutive effect.

Undistributed Earnings of Subsidiaries — The Corporation intends to reinvest the undistributed earnings of its United States subsidiaries. Accordingly, no provision has been made for the 15% tax on such earnings if transferred to the Parent Corporation. The undistributed earnings of United States subsidiaries totaled \$18,560,000 as of September 30, 1976.

NOTE B — NOTES PAYABLE TO BANKS

Notes payable to banks of \$2,000,000 at September 30, 1976 are collateralized by the assets of Na-Churs Plant Food Co. (Na-Churs) and represent borrowings by Na-Churs under a \$20,000,000 Revolving Credit Agreement. The Agreement is guaranteed by Na-Churs International Limited and expires December 31, 1976. Terms of the Agreement require the Borrower to maintain average compensating cash balances, or fees in lieu thereof. The effective interest rate for borrowings under the Agreement approximated 9.5% during the year ended September 30, 1976.

Terms of the Agreement include a restriction on cash dividends paid by the Borrower or the Guarantor. Cash dividends are limited to \$280,000 for the quarter ending December 31, 1976. This limitation will enable the Corporation to continue its normal quarterly dividend payment. The Agreement also requires the Borrower and Guarantor to maintain certain financial ratios and contains restrictions on the purchase of property, plant and equipment.

The Corporation is presently renegotiating its credit arrangements. Based on preliminary discussions with its bankers, the Corporation

anticipates that the new arrangement will be a line of credit agreement and will not include assignments of assets and other covenants will be less restrictive.

NOTE C — STOCK OPTIONS

The Corporation has a stock option plan for certain officers. Options granted during the year ended September 30, 1976, are exercisable at the rate of 33 1/3% a year and expire three years from the date of grant. During the year ended September 30, 1976, options to purchase 48,000 shares at a price of \$5.00 per share were granted and options to purchase 8,800 shares were exercised at a price of \$3.25 a share. At September 30, 1976, options to purchase 48,000 shares at a price of \$5.00 per share were outstanding, of which 16,000 were exercisable.

NOTE D — LEASES

Na-Churs Plant Food Co. leases certain transportation equipment and computer hardware. The leases require minimum annual rentals as follows:

1977	\$921,000
1978	\$903,000
1979	\$807,000
1980	\$357,000
1981	\$ 24,000

Rental expense totaled \$1,096,000 and \$1,274,000 for the years ended September 30, 1976 and 1975, respectively. A portion of this expense was based on mileage charges for leased trucks.

NOTE E — LITIGATION

The Corporation and/or subsidiaries (jointly referred to as "the Corporation") are defendants in several product liability lawsuits. These lawsuits are typically of the nuisance variety and are being defended by counsel for the Corporation's insurance carrier. Certain of the claims also include punitive damages which are not covered by insurance. However, claims of this type have historically been settled out of court with no punitive damages awarded.

Because most of these lawsuits are in preliminary stages, legal counsel is not able to express an opinion on their ultimate outcome. However, management of the Corporation is of the opinion that uninsured settlements, if any, will not be material.

The Corporation is also defendant in lawsuits involving claims by former employees. The Corporation originally brought action against the former employees to enforce non-competition covenants contained in employment agreements and is also seeking compensatory and punitive damages. The former employees filed counter-claims in amounts similar to the Corporation's claims. Management of the Corporation, and its legal counsel, believe the counter-claims filed by the former employees are without merit.

Certain former suppliers of Na-Churs Plant Food Co. (Na-Churs) have filed claims to recover contractual liquidated damages totaling \$2,147,000 and punitive damages totaling \$500,000 resulting from alleged purchase commitments bearing dates of prior fiscal years. An agent of these suppliers has filed claims against Na-Churs to recover alleged damages of \$2,400,000 in relation to such commitments. Na-Churs has filed related claims against the former suppliers and agent totaling \$10,000,000 alleging violations of express and implied warranties and of provisions of federal anti-trust legislation. This litigation is in its preliminary stages and the outcome is not currently predictable.

NOTE F — COMMITMENTS

The Corporation has purchase commitments for substantially all its projected 1977 requirements for phosphoric acid and potash, and approximately 50% of its projected 1978 requirements for those chemicals. These commitments are at prevailing market prices at time of delivery.

NOTE G — CANADIAN ANTI-INFLATION ACT AND REGULATIONS

The Corporation is not subject to legal enforcement of the Canadian Anti-Inflation Act and Regulations, except with respect to the payment of dividends.

AUDITOR'S REPORT

To the Shareholders
Na-Churs International Limited

We have examined the consolidated balance sheet of Na-Churs International Limited and subsidiaries as of September 30, 1976, and the related statements of consolidated income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously made a similar examination of the consolidated financial statements for the preceding year.

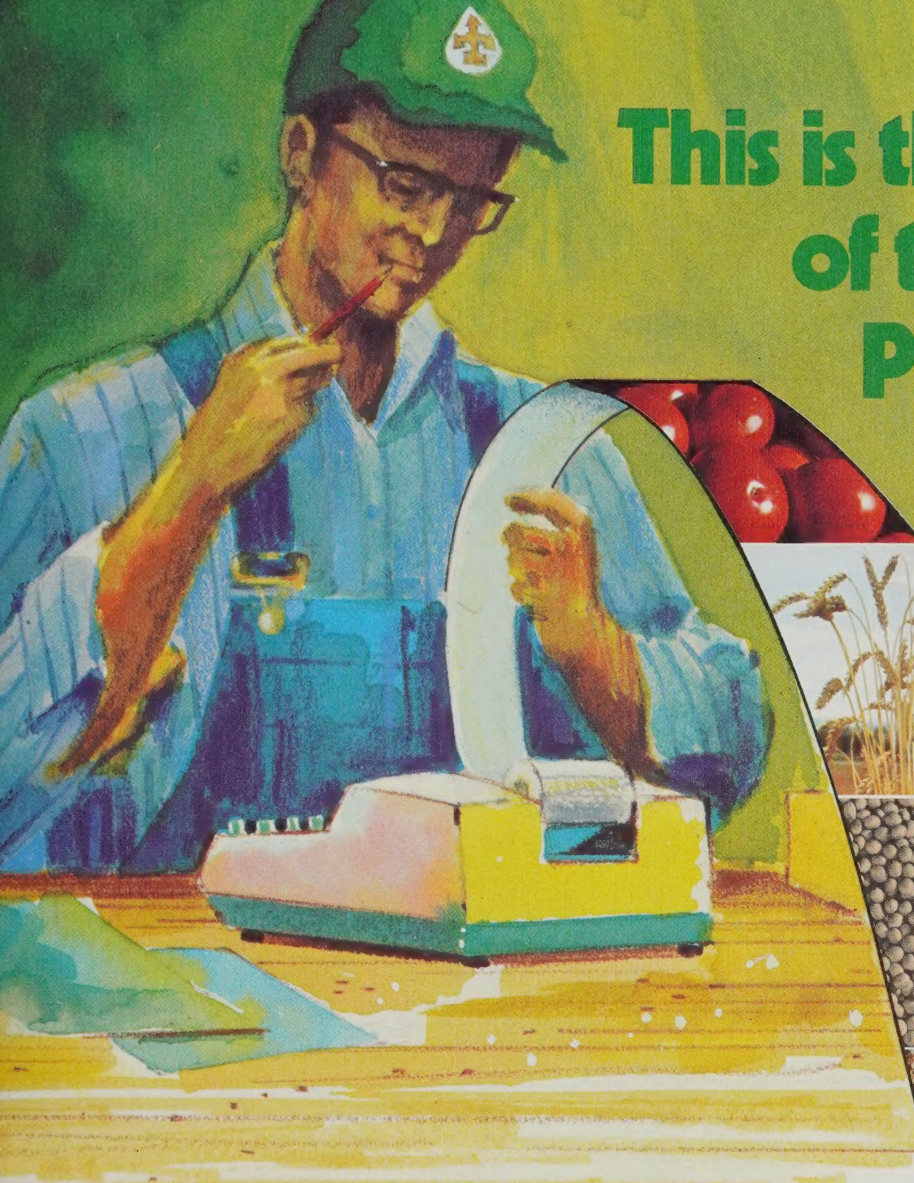
As discussed in Note E to the consolidated financial statements, the Corporation is defendant in certain lawsuits. Although the Corporation and its legal counsel believe that it has meritorious defenses to the lawsuits, their ultimate outcome cannot presently be determined. No provision for liabilities, if any, that may result from these claims has been made in the financial statements.

In our opinion, subject to the effects, if any, on the financial statements of the ultimate resolution of the lawsuits discussed in the preceding paragraph, the financial statements referred to above present fairly the consolidated financial position of Na-Churs International Limited and subsidiaries at September 30, 1976, and the consolidated results of their operations and changes in their financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Ernst & Ernst

London, Ontario
November 24, 1976

Chartered Accountants



This is the moment of truth for the Professionals

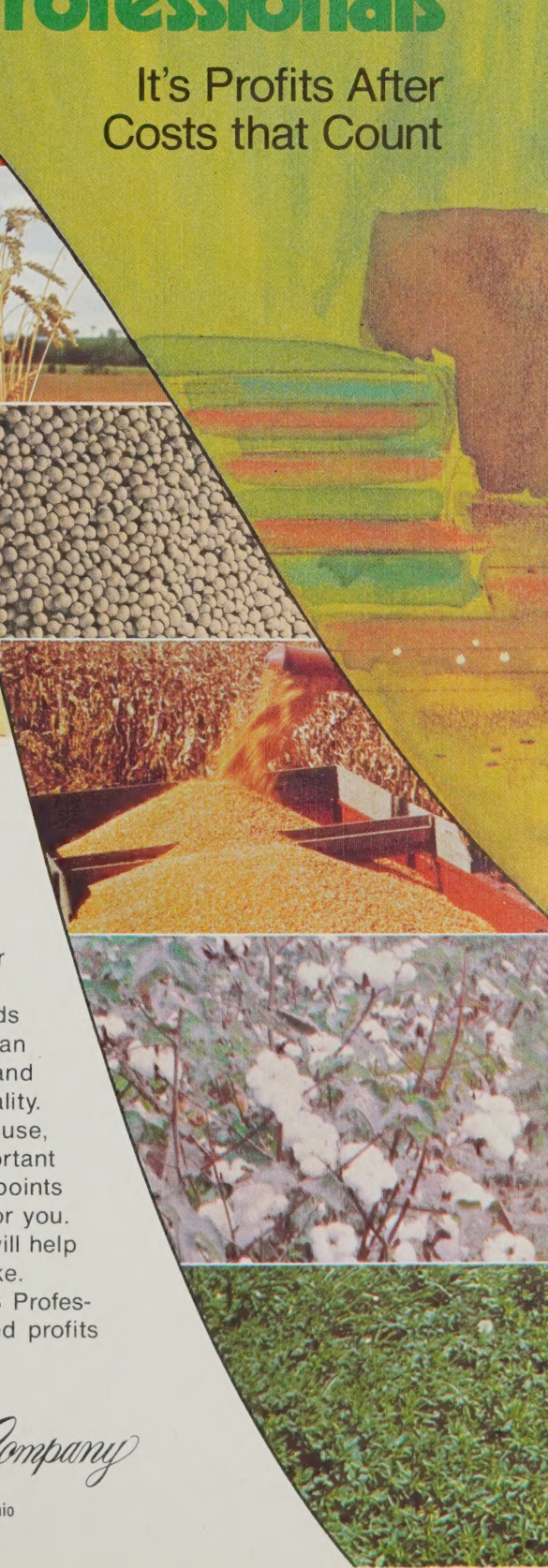
It's Profits After
Costs that Count

An evening with the adding machine, when the harvest is in and the bills are paid, tells the professional what kind of year it has been — and why!

The end of a crop year is particularly rewarding for growers on the NA-CHURS Program. NA-CHURS Professionals make it a point to identify more than half a dozen profit factors and help the grower measure his efficiency in all of them at year end.

Profit today using NA-CHURS means much more than big yields and a fine looking crop. How about these: 1. Early maturity that can win an early-harvest premium in many situations. 2. Higher protein and other nutrient content. 3. Foliar spray for an extra surge of crop vitality. 4. Time saved at ground-preparation and planting time by easy-to-use, easy-to-handle NA-CHURS liquid fertilizer. 5. Possibly the most important of all, the broad-spectrum soil testing service in which NA-CHURS points the way to the crop feeding program that can be most efficient for you. 6. Also test-plot comparisons your NA-CHURS Crop Service Man will help arrange and document the difference that only NA-CHURS can make.

One good professional working with another — the NA-CHURS Professional working closely with the Professional Grower, for increased profits after costs. That's what counts!



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1705 N. Broadway
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Forrest City, Arkansas



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LIMITED

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